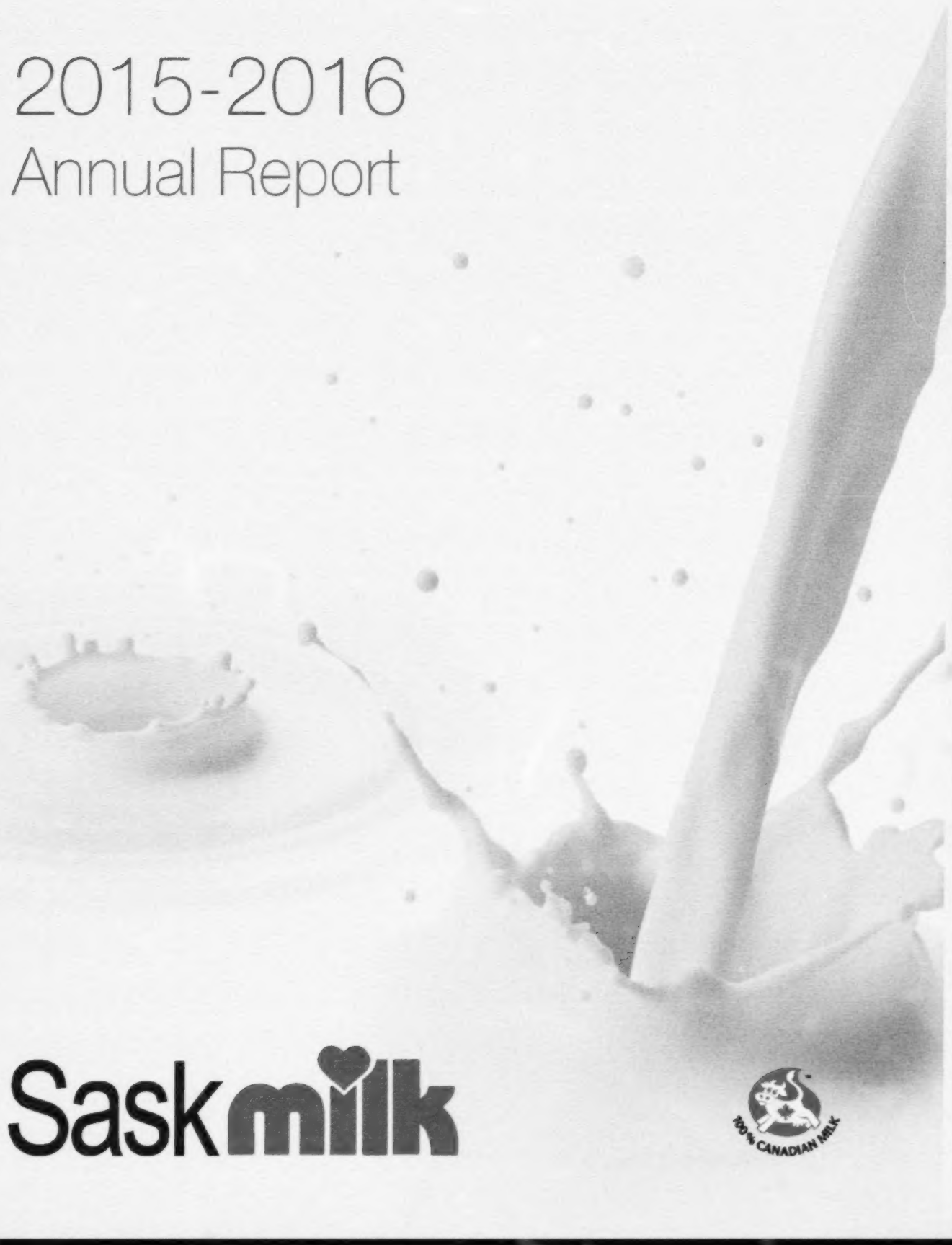
2015-2016
Annual Report



Saskmilk

100% CANADIAN MILK

Our Misson

To lead and grow the dairy industry through innovation, advocacy, and quality

Our Vision

A healthy sustainable dairy industry

Board of Directors 2015-2016

Melvin Foth,
Chair
Box 497
Hague, SK
S0K 1X0

Ryan Enns
Box 463
Osler, SK
S0K 3A0

Blaine McLeod
Box 383,
Caronport, SK
S0H 0S0

Brad Kornelius,
Vice-Chair
Box 509
Osler, SK
S0K 3A0

David Entz
Box 100
Pennant, SK
S0N 1X0

Brian
Lindenbach
Box 192
Balgonie, SK
S0G 0E0

Denise Coghill
Box 50
McLean, SK
S0G 3E0

Jack Ford
Box 250
Wishart, SK
S0A 4R0

Tom Mackenzie
R.R. #1
Zehner, SK
S0G 5K0

Staff

Keith Flaman
General Manager

Anita Medl
Marketing Manager

Jenn Buehler
Administrative Assistant

Doug Miller
Manager Finance & IT Services

Dianne Cardinal
HR Coordinator/Producer Payment Officer

Joy Smith
Manager Policy & Communications

Bev Eckert
Promotions Assistant

Bev Solie
Quota Management Officer

Deb Haupstein
Dairy Specialist

Darlene Weighill
Financial Officer

Chairman's Report

This has again been an interesting and eventful time for the dairy industry including SaskMilk. SaskMilk has been involved in the producer-processor negotiations on the ingredients strategy, and we are pleased that a national agreement was reached this July. The next steps will see the provinces, DFC, CDC, and processors working together on implementation details and technical issues. Dealing with the huge supply of skim milk powder, which increases with the escalating demand for butterfat, has been a problem for the industry for a long time, and a solution is important for growth in both production and processing. We are excited about the potential for growth and believe that this agreement will make us all better prepared to deal with the challenges this brings.

The SaskMilk board keeps a steady focus on governance and spent some time in refining our mission and vision statements, as well as reviewing and simplifying our strategic plan and governance documents. Both as a part of the Western Milk Pool and as a part of DFC, our focus has been on preparing for the future. As an industry, we have to ensure that we are progressive, strategic, and adaptable in our planning and thinking.

Dairy demand in Canada is consistently increasing, and we anticipate continuing growth over the next several years. We continue to monitor our Dairy Entrant Assistance Program and are pleased with the interest this program has generated, and that we have seen 9 new entrants as a result of the program over this past year. As a result, Saskatchewan is keeping our farm numbers steady– an important part of preparing for future growth. In addition to making quota available for new producers, we continue to allocate increases to existing producers, and issued quota increases of 3 % this year. Related to this, we have completed the review on our quota policy and made changes that give producers an incentive to manage their quota in a manner to avoid lost opportunity by moving credits to farms that can fill them. The SaskMilk Board continues to monitor our provincial obligations to ensure we use quota increases and incentive days to send the signal that we are in a growing market.

Both the CETA and the TPP deals have been agreed to in principle are awaiting ratification. With some protectionist attitudes growing both in Europe and in the U.S., there is still some uncertainty as to the outcome or implementation times of these trade deals. SaskMilk has expressed our concerns about the potential deals whenever appropriate, and made a submission to the federal government during their consultations.

ProAction is moving along with milk quality (CQM) in place and Animal Care and Traceability being unfolded during 2017. SaskMilk is committed to the implementation of proAction, and also to keeping our promise to producers that they will have a choice in their assessors under the Animal Care module.

The SaskMilk board continues to work on an open transparent relationship with the Ministry of Agriculture, the Agi-food Council, and our processor. We also work closely with the other western provinces under the WMP, and are exploring areas where we might harmonize in order to work together more effectively.

The SaskMilk board strives to be forward-looking and works at becoming a board that will prepare for where the industry will be, rather than to react to where we have been. I thank the Board, General Manager, and staff for their efforts and hard work this year.

Mel Foth

General Manager's Report

While most years are full of activities, 2015-16 proved to be exceptional. The old adage "lots of irons" in the fire was never more applicable. Development and implementation of a number of initiatives was in motion at the National, Regional and Provincial levels. ProAction, ingredients strategy, milk pay system, every pick-up quality and components testing, guidelines to deal with animal abuse, National Milk Marketing Strategy, along with on-going communication and advocacy efforts, highlight the years undertakings.

ProAction continues to roll out. The quality milk module is in place across Canada and producers who meet the criteria for quality are sharing in the bonus. Currently, the second module, animal welfare assessment, is being implemented. Assessors are being trained, workshops will be conducted to explain the procedures and the expectations of producers to assist in the assessment.

The Dairy Entrant Assistance Program (DEAP) was inaugurated at the beginning of the current dairy year. Staff played an instrumental role in guiding the new entrants: ensuring their facilities met the standards, quota and documentation was in place, and offering general advice to help ease the new dairy producers into the industry. The first year of the program exceeded expectations and year 2 promises to add to that success. A warm welcome to the new dairy producers - you are an important asset to a vibrant industry.

After a year of consultation and development, a revised quota policy was approved for August 1 implementation. Details of the policy were communicated a number of times in the Newsletter, directly to producers (e-mail or fax), presented at the Spring producer meetings, and posted on the website. As well, staff spent considerable time informing producers on the consequences of not meeting the terms of the policy and providing advice on managing production to quota allocation within the flexibility limits.

There have been some setbacks in the rollout of the national milk pay system. A review of the project management revealed some gaps which are being dealt with. It must be noted that when the system is implemented, producers, through electronic interface, will be better positioned to manage their business because of access to more information on their operations.

Monitoring production and quota within the province is a continual process. As producers you are expected to manage your quota to meet your allocation. An important service of SaskMilk is to facilitate quota transactions and credits exchange so provincial production can be optimized. The obligations of SaskMilk to the Western Pool and the Milk Supply Management System require constant scrutiny to ensure Saskatchewan production is meeting its requirements. Balancing milk supply to demand, which has seen unprecedented growth, is a challenge to the traditional ways of doing business.

The Canadian dairy industry is in exciting times. Consumers are including more dairy in their diets. Implementation of the ingredients strategy, with its competitive pricing for SNF, should put downward pressure on imports and upward pressure on domestic production. Demand will encourage investment in modernized processing capacity and innovation will add value to traditional by-products.

The time to invest in dairy production in Saskatchewan couldn't be better.

On behalf of staff, we take pride in implementing the Board's strategy and assisting producers in adapting to policies that are intended to provide a robust future for Saskatchewan dairy producers.

Keith Flaman

Dairy Farmers of Canada

This has been a very busy year for DFC, with the introduction of several new programs and initiatives that support supply management, promote milk and milk products, and care for future generations.

Ingredients Strategy
DFC announced that an agreement in principle had been reached between farmers and processors at DFC's Annual General Meeting (AGM) held in July. Farmers, processors, provincial boards, and the Canadian Dairy Commission will be working towards implementation of the agreement over the coming months.

Canadian Dairy Research Council
The Canadian Dairy Research Council, a subcommittee of the DFC Board of Directors, completed its first mandate in June by elaborating DFC's national dairy research strategy which aims to better coordinate dairy farmers' research investments at the national level.

Fuelling Women Champions
Since inception, this program has aimed to bring more awareness to women's sports. It has been brought to life across several platforms and activities, including sponsorships, events, television advertising, public relations, the womenchampions.ca website, and digital and social media marketing activities. DFC has also established the Champions Fund, a new $100,000 grant program designed to support girls and women across the country in achieving sports excellence.

Policy and International Trade
DFC continues to closely monitor the evolution of domestic and international market conditions, the competition from other sectors as well as from abroad all the while keeping a close eye on openings which may present themselves. We also take every opportunity to discuss market indicators and their potential impact on farm revenues with provincial dairy organizations. DFC representatives also frequently participate in international forums.

The Trans-Pacific Partnership, although signed, is still awaiting the ratification process. The CETA agreement with the EU has gone through legal review as well as some changes to the Investment Chapter, allowing the agreement to enter the approval/ratification process. DFC will continue to work with the government to try to ensure dairy farmers are fully compensated for the negative impacts which would arise from implementation.

ProAction
DFC has continued to work with the provinces on the last two proAction modules: Biosecurity and Environment. In April, DFC hosted a press conference to launch the Canadian dairy farmers' sustainability initiative. The Canadian Quality Milk program (now known as proAction's Food Safety module) successfully completing the Canadian Food Inspection Agency's Food Safety Recognition Program.

Government Relations
February saw a successful annual Lobby Day, where farmers from across the country participate in meetings with MPs and Senators, followed by the Dairy Showcase reception, which was attended by more than 500 government officials and stakeholders. In addition, in June over 3,000 farmers from

every province held a rally on Parliament Hill to show the government that Canadian Milk Matters. Meetings with key MPs and staff, the Canadian Milk Matters campaign, farm tours for MPs, key committee appearances, and technical submissions are all activities that have been undertaken over the past year to continue to inform government about the dairy industry.

Communications

DFC's ongoing communication activities aim to help achieve the strategic objectives of the organization as well as those of its departments, through social media, the Dairy Express, numerous contributions to important provincial publications, media relations, and government relations.

Marketing

This year, several campaigns were run to support consumers choosing milk and milk products as an important part of their food consumption. A new initiative - Project Sleep - was launched, taking a stand on the issue of sleep deprivation fuelled by the release of a national study and a discussion paper developed by sleep experts. The new cheese promotion campaign "A Truly Canadian Pleasure" included television ads, online videos, and printed ads, and added an outdoor advertising campaign for Canada Day. The All You Need is Cheese magazine and campaign continued this year, with over 100,000 subscribers, in-store promotions, sponsorships, and events. Cheese was featured at various fairs and shows, as well as demonstrations and promotions at retailers across Canada.

DFC's ever-popular Milk Calendar enjoyed another successful year, with over two million copies distributed across Canada.

DFC and Tim Horton's launched three private-label bottled drinks featuring the 100% Canadian Milk symbol during the summer. This event was supported by an extensive integrated media campaign, which included mass media, digital and PR activities. These drinks are to be sold across the country in all Tim Horton's locations, as well as in major grocery chains.

Nutrition

Dieticians once again came out in big numbers for the 15th edition of the Symposium on Nutrition and Health, which was held successively in Edmonton, Toronto, Montreal, and Moncton in October.

DFC encouraged consumers to 'Get Enough' by visiting the getenough.ca website and downloading the free Get Enough Helper app for smartphones. Activities and campaigns were also run in partnership with the Colorectal Cancer Association of Canada and with the Heart and Stroke Foundation.

In closing I would like to express appreciation to Ryan Enns for his past involvement and contribution at the DFC Board. Ryan opened the door to my participation following the Annual Policy Conference in January 2016 and I am honoured to have the opportunity to be engaged in this way. I look forward to continued service on behalf of our SK industry

Blaine McLeod

Research Report

SaskMilk continues to be heavily involved with both applied and basic research, collaborating primarily with the University of Saskatchewan but also other research facilities in Canada. Some of our major projects also collaborate with researchers from around the world, such as the Digital Dermatitis Project with the WCVM, which is now working with colleges in Iowa and making great strides in understanding one of the biggest threats to the dairy industry worldwide. SaskMilk has sponsored very basic research which will enhance the nutritional qualities of Saskatchewan-produced products (such as canola meal) which will in turn make this product more competitive with soya meal. A side benefit to this technology is that when different feedstuffs were subjected to this novel treatment it completely removed ergot and mycotoxins, both of which are extremely harmful to the livestock industry.

SaskMilk continues to hold our annual Dairy Info Day every late January, and it continues to be very well received by our members and our industry partners. Each year a small committee tries to look into the crystal ball for emerging issues facing the dairy industry and then develop a program around a specific topic that will be beneficial to our members. We have offered themes such as 'animal care', 'barley versus corn production', 'water quality', and 'environmental issues' in the past. The January 2017 Dairy Info Day will focus on calf management opportunities, both from nutritional and health perspectives.

SaskMilk recognizes that the dairy industry only represents a very small portion of the agriculture output in Saskatchewan (about 2%), which is why we almost always prefer to support research projects that will not only benefit dairy but also help other agricultural economic drivers in our province further market their products. We recognize that our industry partners such as Sask Canola with 28,000 members, or the Saskatchewan Cattlemen's Association with 12,000 members, have a large impact on the province's economic wellbeing. Partnering with these other types of groups on SaskMilk-supported projects can have a direct positive financial impact for their sectors as well.

Because the dairy industry is structured as a Supply Management commodity, we work under a cost of production formula that helps determine the price paid to producers for their raw milk. Research can offer opportunities to become more efficient and cost-effective, which means better returns for producers and more competitive farmgate pricing for milk.

Jack Ford

Production Report

As of July 2016, Saskatchewan had 159 dairy operations in the province.
The total milk shipped for the year was 250,811,942 litres, which is an increase over the previous year of 5.74%. Butterfat production for the dairy year was 10,074,453 kilograms, up from the previous year by 526,019 kilograms, an increase of 5.5%.

In the Western Milk Pool, Class 1 fluid sales were 893,202,694 litres; this is up from 891,738,523 litres the previous year, or 0.16%. Saskatchewan's share of the Western Milk Pool fluid sales was 5.76%.

The average milk composition was:

Butterfat	4.0167%
Protein	3.3551%
Other Solids	5.7318%

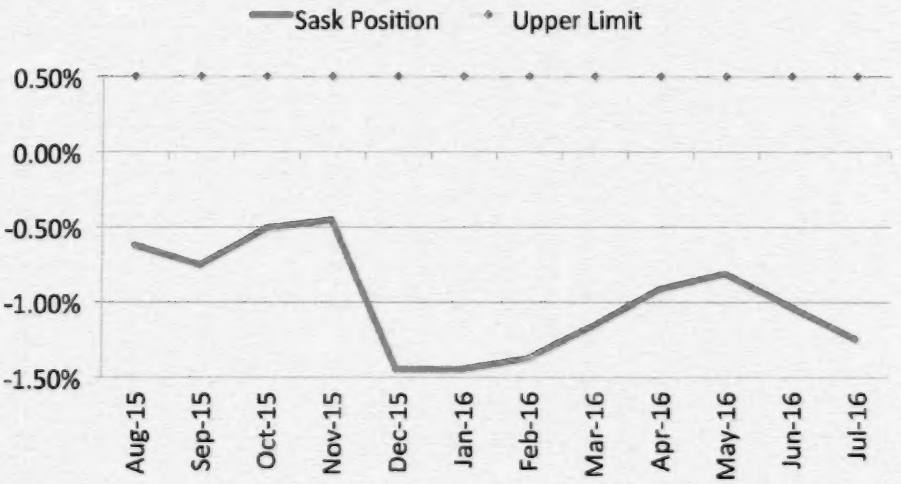
Average blend price:

All Milk	$79.20/hl
Butterfat	$19.77/kg

Average component prices:

Butterfat	$11.220034
Protein	$ 8.220052
Other Solids	$ 1.195154

SK Milk Production



Saskmilk

Financial Statements
Saskatchewan Milk Marketing Board
For the year ended July 31, 2016

Management's Responsibility for the Financial Statements

To the Board of Directors:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian accounting standards for not-for-profit organizations and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors are composed entirely of Directors who are neither management nor employees of Saskatchewan Milk Marketing Board ("SaskMilk"). The Board of Directors are responsible for overseeing management in the performance of its financial reporting responsibilities, and for recommending approval of the financial statements to the Board. The Board of Directors has the responsibility of meeting with management and the external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Board of Directors is also responsible for recommending the appointment of the SaskMilk's external auditors.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the Board of Directors to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Board and management to discuss their audit findings.

October 19, 2016

General Manager

MNP LLP

Independent Auditors' Report

To the Directors of Saskatchewan Milk Marketing Board:

We have audited the accompanying financial statements of Saskatchewan Milk Marketing Board ("SaskMilk"), which comprise the statement of financial position as at July 31, 2016, and the statements of operations and changes in net assets, and cash flows for the year ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of SaskMilk as at July 31, 2016 and the results of its operations, changes in net assets and cash flows for the year ended in accordance with Canadian accounting standards for not-for-profit organizations.

Regina, Saskatchewan
October 19, 2016

MNP LLP
Chartered Professional Accountants

Saskatchewan Milk Marketing Board

Statement of Financial Position

As of July 31, 2016

	2016	2015
Assets		
Current		
Cash	$1,900,464	$2,968,995
Accounts receivable	11,128,486	9,943,140
GST receivable	9,729	26,690
Prepaid expenses	169,809	115,101
	13,208,488	**13,053,926**
Investments (*Note 3*)	1,282,843	-
Capital Assets (*Note 4*)	387,935	244,357
	$14,879,266	**$13,298,283**
Liabilities		
Current		
Accounts payable and accrued liabilities	$11,809,940	$10,290,866
PST Payable	-	152
	11,809,940	**10,291,018**
Internally Restricted Fund - Industry Development *(Note 9)*	673,756	769,143
General Fund	2,395,570	2,238,122
Net Assets	**3,069,326**	**3,007,265**
	$14,879,266	**$13,298,283**

Commitments (*Note 6*)

Approved by the Board of Directors

Director

Director

See accompanying notes to the financial statements

Saskatchewan Milk Marketing Board

Statement of Operations

For the 12 months ended July 31, 2016

	BUDGET *(Note 9)*	2016	2015
	(Unaudited)		
Revenue			
Milk sold to processors	$180,853,644	$179,161,287	$180,236,140
Milk pools *(Note 5)*	11,775,864	21,358,809	12,261,286
Milk pool administration and assessment fees *(Note 11)*	3,784,755	2,941,865	4,047,486
Interest	72,000	61,667	72,362
Milk quality penalties	300,000	202,104	190,400
Licence fees and miscellaneous	539,237	568,591	579,837
Promotion Levy	3,657,975	3,772,998	3,558,056
Grants		230,925	38,691
	200,983,475	**208,298,246**	**200,984,258**
Expenses			
Milk purchased from producers	193,633,801	200,579,016	193,739,272
Administrative expense	2,110,602	2,447,128	2,037,019
DFC Industrial Levy and Membership	1,783,507	1,818,441	1,702,991
Milk West	1,272,221	1,094,826	794,909
Salaries	952,371	897,665	862,240
Marketing, Nutrition and Education Activities	387,500	467,390	422,016
Travel, sustenance and vehicle expense	317,363	265,155	234,415
School Milk Program	131,500	121,393	132,051
Employee benefits	219,593	170,950	172,912
Rent	146,485	147,461	153,454
Honoraria	155,300	125,475	100,113
Amortization	75,000	107,932	130,664
Legal	10,000	-	9,997
Cost of production study	17,000	16,886	15,648
	201,212,243	**208,259,718**	**200,507,701**
Excess of revenues over expenses before other items	(228,768)	38,528	476,557
Other items			
Loss on sale of investments	-	(7,819)	-
Foreign exchange loss	-	(7,787)	-
Unrealized gain on market value of investments	-	39,139	-
Excess of revenue over expenses	**($228,768)**	**$62,061**	**$476,557**

See accompanying notes to the financial statements

Saskatchewan Milk Marketing Board

Statement of Changes in Net Assets

For the 12 months ended July 31, 2016

	General Fund	Internally Restricted for Industry Development	2016	2015
Net assets, beginning of year	$2,238,122	$769,143	$3,007,265	$2,530,708
Excess of revenue over expenses	62,061	-	62,061	476,557
Net assets transferred in	-	-	-	-
Interfund transfers (Note 9)	95,387	(95,387)	-	-
Net assets, end of year	**$2,395,570**	**$673,756**	**$3,069,326**	**$3,007,265**

See accompanying notes to the financial statements

Saskatchewan Milk Marketing Board

Statement of Cash Flows

For the 12 months ended July 31, 2016

	2016	2015
Cash Flows from Operating Activities:		
Cash receipts from processors and fees	207,068,196	199,497,826
Interest received	61,667	72,362
Cash paid to producers	(205,616,137)	(198,596,643)
Cash paid to employees and board members	(1,068,615)	(1,035,152)
Cash flows from operating activities	445,111	(61,607)
Cash Flow used for Investing Activities:		
Purchase of tangible capital assets	(251,510)	(83,503)
Purchase of investments	(1,610,933)	
Proceeds on disposal of investments	348,801	
Cash flows from investing activities:	(1,513,642)	
Net decrease in cash during the year	(1,068,531)	(145,110)
Cash position, beginning of year	2,968,995	3,114,105
Cash position, end of year	1,900,464	2,968,995

See accompanying notes to the financial statements.

1. Incorporation

The Saskatchewan Milk Marketing Board (SaskMilk) is a producer marketing board established under the Agri Food Act effective October 1, 2010. The Board's general role and responsibility is to design and implement dairy policies and programs for the benefit of producers and other industry stakeholders.

In particular, the Board is responsible for:

- collection and purchase of producer milk;

- transport and sale of milk to distributors and processors; and

- compensate producers through a multiple component pricing system and manage production levels in conjunction with the National and Regional Marketing Agreements; and

- collect and administer fees or levies required to operate the provincial milk pool, and to fund Board program activities (promotion and nutrition) of benefit to the industry.

The Board provides leadership to the Saskatchewan dairy industry in addressing provincial, regional, national and international issues. It also promotes the interests of Saskatchewan producers at Western Milk Pool and Canadian Milk Supply Management Committee meetings.

Industry stakeholders' participation in policy and program consultations is facilitated primarily through semi-annual and annual producer meetings.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations set out in Part III of the CPA Canada Handbook – Accounting, as issued by the Accounting Standards Board in Canada and include the following significant accounting policies:

a) Revenue Recognition

Revenue from the milk sold to the processors is recognized when the milk is delivered to the processor.

b) Cash

Cash is comprised of monies on deposit with the bank.

2. Significant accounting policies (continued)

c) Capital Assets

Capital assets are recorded at cost and are amortized over their estimated useful lives. Amortization expense is calculated using the straight line amortization at the following annual rates:

Leasehold Improvements	10 years
Milk Payment System	6 years
Office furniture and equipment	3-10 years
Storage container	20 years

d) Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in excess of revenues and expenses in the periods in which they become known.

e) Income taxes

SaskMilk is incorporated as a not-for-profit organization and is exempt from income taxes.

f) Financial Instruments

SaskMilk recognizes its financial instruments when they become party to contractual provisions of the financial instrument. All financial instruments are initially recorded at their fair value. SaskMilk financial instruments consist of cash, accounts receivable, investments and accounts payable. SaskMilk has elected to record investments at fair value. All other financial instruments are subsequently measured at amortized cost.

2. Significant accounting policies (continued)

g) Financial Asset Impairment

SaskMilk assesses impairment of all of its financial assets measured at cost or amortized cost. SaskMilk groups assets for impairment testing when available information is not sufficient to permit identification of each individually impaired financial asset in the group. Management considers whether the issuer is having significant financial difficulty and/or whether there has been a breach in contract in determining whether objective evidence of impairment exists. When there is an indication of impairment, SaskMilk determines whether it has resulted in a significant adverse change in the expected timing or amount of future cash flows during the year. If so, SaskMilk reduces the carrying amount of any impaired financial assets to the highest of: the present value of cash flows expected to be generated by holding the assets and the amount that could be realized by selling the assets. Any impairment, which is not considered temporary, is included in current year excess of revenues over expenses.

SaskMilk reverses impairment losses on financial assets when there is a decrease in impairment and the decrease can be objectively related to an event occurring after the impairment loss was recognized. The amount of the reversal is recognized in the excess of revenue (expenses) in the year the reversal occurs.

3. Investments

	2016
Market value	
Fixed income	**584,729**
Equities	**541,122**
Mutual Funds	**105,706**
Cash and cash equivalents	**51,286**
	$1,282,843

4. Capital Assets

	Cost	Accumulated Amortization	2016 Net Book Value	2015 Net Book Value
Milk Payment System	**$403,625**	**$322,777**	**80,848**	107,317
Leasehold Improvements	**64,903**	**36,762**	**28,141**	35,176
Office furniture and equipment	**131,209**	**93,294**	**37,915**	50,723
Milk Management System (New)	**241,031**	**-**	**241,031**	51,141
	$840,768	**$452,834**	**$387,935**	$244,357

5. Milk Pools

Effective August 1, 1991 (and continued August 1, 2003), the previous Saskatchewan Milk Control Board entered into an arrangement with its counterparts in Prince Edward Island, Nova Scotia, New Brunswick, Quebec, Ontario, Manitoba, Alberta, British Columbia and the Canadian Dairy Commission (CDC). As of September 2006, Newfoundland and Labrador have signed on. This arrangement provides for pooling of revenues from sales of milk components in industrial and special classes of milk sold in domestic and external markets. CDC administers the Industrial and Special Class Pool.

Effective March 1, 1997, the previous Saskatchewan Milk Control Board entered into an arrangement with its counterparts in British Columbia, Alberta and Manitoba and CDC. This arrangement provides for pooling of all revenues from sales of Fluid Milk and Industrial Milk, including special classes, by producers to processors in the four western provinces. The purpose of the arrangement is to pool producer returns as if the western provinces constituted a single market. CDC administers the Western Milk Pool.

The Saskatchewan Milk Marketing Board has replaced the former Saskatchewan Milk Control Board in all previous agreements.

Based on each province's monthly utilization, CDC will either distribute a portion of, or require a contribution to the Industrial and Special Class Pool and Western Milk Pool. Saskatchewan received contributions of $21,358,809 (2015 - $12,261,286) from the milk pools.

6. Commitments

SaskMilk has entered into a lease for office space. The future minimum lease payments are as follows:

2017	$98,889
2018	$102,845
2019	$106,955
2020	$112,307
2021	$117,891

SaskMilk has a commitment to Milk West. In accordance with the related agreement, if the Board were to withdraw from the partnership it would still be responsible for its' full contribution to the Milk West program for the 12 months following the notice of withdrawal. The contribution is reviewed and updated annually.

7. Pension plan

SaskMilk participates in the Public Employees' Pension Plan, a defined contribution or benefit plan. SaskMilk obligations to the Plan are limited to 7.60% (2015 – 7.50%) of earnings for all employees for current services. During the year, SaskMilk contributed $62,834 (2015 - $63,194) to the plan, which is recorded as an expense.

8. Financial instruments

SaskMilk, as part of its operations, carries a number of financial instruments. It is management's opinion that SaskMilk is not exposed to significant interest, currency, credit, liquidity or other price risks arising from these financial instruments except as otherwise disclosed.

a) Fair value

SaskMilk financial instruments consist of cash, investments, accounts receivable, and accounts payable. The carrying amount of the Organization's financial instruments approximates their fair value, due to their relatively short-term maturities. Investments are recorded at fair value based on prices quoted in an active market.

b) Credit risk

SaskMilk is subject to credit risk as all of the Board's milk sales are to one processor.

SaskMilk is also exposed to credit risk in accounts receivable in the event that a customer fails to honour its obligations. Credit risk is managed with regular credit assessments and active collection activity. In the event that an account is deemed uncollectible, the account will be written off as a bad debt.

c) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. SaskMilk is exposed to interest rate risk primarily relating to its investments.

d) Foreign currency risk

Foreign currency risk arises from SaskMilk holding investments denominated in US currency. Fluctuations in the relative value of the Canadian dollar against the US currency can result in a positive or negative effect on the value of the investments. SaskMilk manages its foreign currency risk by limiting the investments in US funds.

9. Internally Restricted Fund

A portion of the Industry Development Fund (IDF) on Class 1 milk is designated for Internally Restricted Operations – Industry Development. The IDF is being pooled in the WMP for the following: Quality Bonus, Inhibitor Testing Reagent, Environmental Compliance, Milk Quality Testing, Milk Metering, and Administration. SaskMilk receives revenue for Milk Quality Testing, Milk Metering and Administration from the WMP and, for the present, is paying into the WMP for Quality Bonus, Inhibitor Testing Reagent and Environmental Compliance.

IDF Funds were used for the following programs in 2015-2016: Inhibitor Testing Reagent – paid to the Processor, Quality Milk Bonus – paid to the Producers, Environmental Compliance – portion used to reduce haulage charges to Producers, Milk Quality Testing – payment for portion of component testing and testing supplies (i.e. sample bags, sample vials, and truck seals), CQM Program, and proAction.

10. Budget

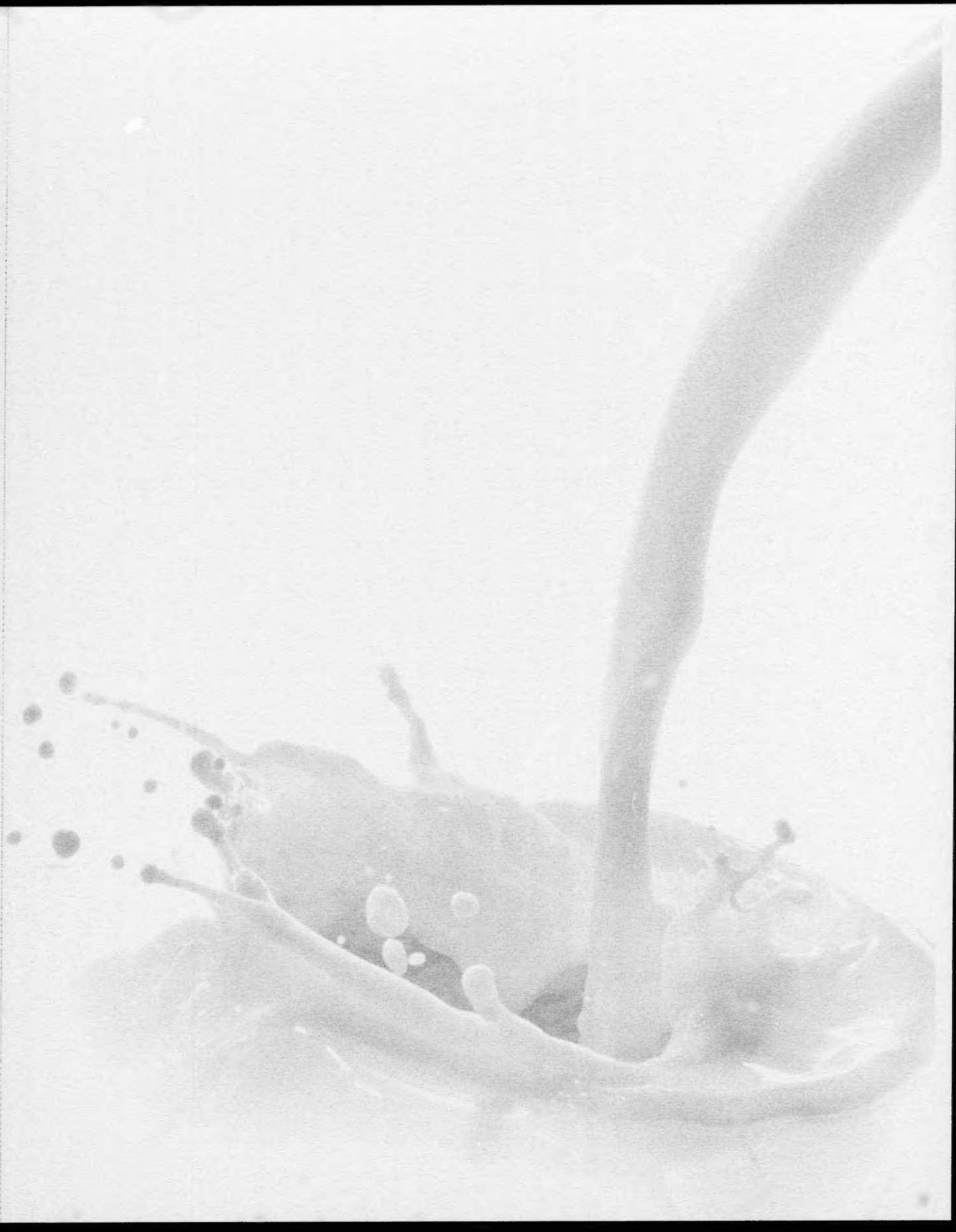
The budgeted figures provided in the statement of operations and changes in net assets are presented for information purposes only and are unaudited. The 2015 – 2016 Budget was approved by the Board of Directors on June 25, 2015.

11. Milk Pool administration and assessment fees

Included in the Milk pool administration and assessment fees is the following:

	2016	2015
IDF revenue	$1,726,151	$1,584,461
SMMB assessment	1,634,965	1,541,823
CDC surplus refund	494,704	662,288
Fluid shrink	283,836	277,007
Component testing	21,076	21,626
Adjustments	(1,218,867)	(39,719)
	$2,941,865	**$4,047,486**

Promotional levy collected during the year totalled $3,772,998 (2015 - $3,558,056).



Saskmilk | 444 McLeod Street, Regina, SK, S4N 4Y1 | Phone: (306) 949-6399 | Fax: (306) 949-2605 | www.saskmilk.ca